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TAGS: ECON PGOV PREL KCRM PTER LE

SUBJECT: LEBANON: CITIBANK LEBANON DIRECTOR ANXIOUS FOR
INTERNATIONAL SUPPORT ON SECURITY, PRIVATIZATION

Classified By: Ambassador Jeffrey D. Feltman for reasons 1.4 (b) and (d).
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¶1. (U) This message may contain proprietary information.
Please protect accordingly.

SUMMARY

¶2. (C) In a February 13 meeting with the DCM and NEA/ELA Office Director, Citibank Lebanon's Director Walter Siouffi appeared shaken by the morning's bus bombings in Bikfaya, and viewed strengthening Lebanon's security forces as essential to Lebanon's economic future. Siouffi was eager to see international support for Lebanon's arduous privatization and debt reduction program. End Summary.

¶3. (C) DCM, visiting NEA/ELA Office Director Abercrombie-Winstanley and Econoff met with Citibank Lebanon Director Walter Siouffi on February 13. Siouffi has worked with Citibank in Lebanon for several years and has offered his services as an unpaid advisor to the government's economic reform team. Citibank is currently discussing whether it will participate in the U.S.-Lebanon Partnership Initiative, and Siouffi hopes the project will create local jobs.

INCREASED SECURITY NEEDED

¶4. (C) Reacting to the morning's bus bombings in Bikfaya, Siouffi expressed frustration with the GOL's current security policy, which "is not working" to prevent the bombings and assassination attempts. The GOL needs a constant rather than reactive presence throughout the country in order to show its citizens that it is functioning; Lebanese would prefer to have a strong government rather than armed militias.

¶5. (C) U.S. assistance to the military will be essential in establishing better internal security, Siouffi suggested, and in building domestic confidence in the GOL's ability to prevent and prosecute crimes, with or without an international tribunal. The GOL needs security cameras, investigative capabilities to catch the perpetrators of events such as the approximately 20 security incidents over the past two years, in which there have been many witnesses but no solved crimes.

PUSH PRIVATIZATION,
BUT DON'T BREAK IT

¶ 16. (C) Siouffi expressed concern about planned U.S. conditionality on budget support. Using IMF-approved benchmarks would be best way to impose conditionality on U.S. assistance, Siouffi said. Tying assistance to reform during the current political crisis could actually worsen the crisis, and tying small amounts of aid to difficult achievements will not be useful. There are rumored to be over 5000 items awaiting Cabinet approval alone, Siouffi told us, and many reforms will require the passage of laws through Parliament. Providing assistance sooner will have a greater impact on Lebanon's debt, as earlier pre-payment will enable larger interest savings; to delay that aid by even one month has a real budgetary impact.

¶ 17. (C) If conditionality is necessary, Siouffi suggested that U.S. assistance focus on privatization in order to increase the GOL proceeds available to pay down debt. In particular, focusing U.S. assistance on the telecom sector would be the most efficient way to reduce debt, to signal that the GOL is ready for foreign investment, and to reduce Lebanon's debt service costs. Proceeds from the sale of the two mobile licenses could earn the GOL USD 3-5 billion with which to pay off debt; Paris III earned the GOL less than USD 2 billion in cash available this year, which is not even enough to cover the anticipated USD 3 billion deficit. Citibank and JP Morgan are advising on the telecom privatization process, and Siouffi notes that much has been done so far to ready the mobile license tender process; the sale could take place by fall, but a privatization law will be needed. One way to provide assistance earlier would be to give credit to the GOL for forming the Telecom Regulatory Authority (TRA), a major step in the privatization process.

BEIRUT 00000253 002 OF 002

¶ 18. (C) Making assistance conditional upon reform in the electricity sector will be harder, as that sector is much further away from privatization. (Note: MOF officials tell us that they are now focused on pushing electricity sector reform, as they feel that telecom privatization is firmly underway and under the guidance of the TRA. End note. The electricity sector is a variable, rather than a fixed and predictable cost to the GOL because of changing fuel prices. Siouffi suggested to the GOL that they seek donor support in hedging fuel costs to help them better plan their budget. Another way to spur electricity reform would be the formation of a donor-funded special purpose vehicle for private investment in infrastructure. This would enable private companies to build new power production facilities as well as toll roads and other profitable projects, and encourage public-private partnerships.

¶ 19. (C) Outside the telecom and electricity sectors, the Banque du Liban (BDL) also has assets for privatization, the revenue from which could further reduce debt. BDL's assets include the Casino du Liban, a 90 percent stake in Middle East Airlines, and other real estate. The Beirut port's container transshipment service are already under a service contract and are doing well, providing revenue to the GOL; airport services could follow this lead.

FELTMAN